BONUS WORKSHEET

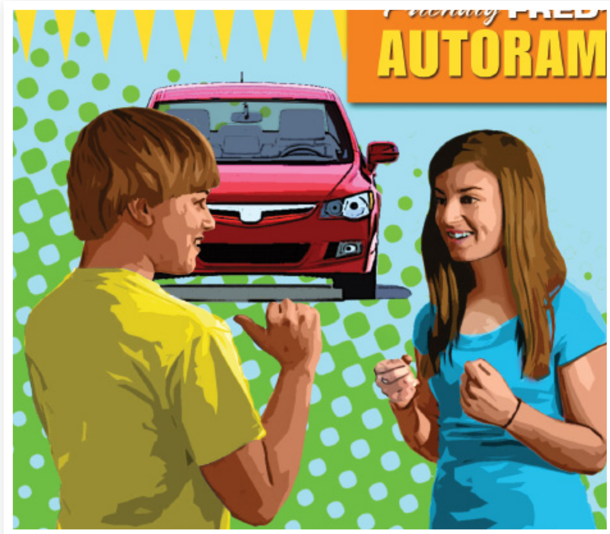
CASH OR CREDIT?

Jason and Amy's big day had finally arrived! After blowing out the candles on their sixteenth birthday cake, they went with their parents to the State Department of Motor Vehicles where they both passed their drivers' tests!

Next, they returned with their parents to Friendly Fred's Autorama. With Fred's expert help, they were able to find a used red two-door car for $6,300 (which included tax, title, and license). It was the amount they had managed to save over the past two years!

"Congratulations, I know you kids have worked hard to save for the car," Fred began. "But you might want to consider a loan so you can hold on to your little nest egg. I can get you a loan at 11.9% interest for no money down and 60 monthly payments of only $143.02."

Their parents said they could think about it. "If we take out a loan, we won't have to touch our savings," declared Amy. "We could use our income from Cuckoo Cones to pay off the loan and use our savings to pay for gas, repairs, insurance, and other expenses." "Before we agree" said Jason, "we ought to figure out what the loan will really cost us."



DEFINITIONS:

- **Loan:** A legal arrangement in which a lender gives money to a borrower who agrees to repay the amount, usually within a set period of time. Most loans require the borrower to pay the lender **interest** in addition to the amount of money borrowed (the **principal**).
- **Credit Card:** A plastic card, usually issued by a bank or store, that enables consumers to make purchases and pay off the balance later. If you pay off your entire balance on time, you won't be charged interest.

QUESTIONS

Show your work on separate paper.

1. How much will Jason and Amy pay in total if they take out the loan?

2. How much interest will Jason and Amy pay over the life of the loan? (Hint: Compare the total cost of the loan payments to the cost of the vehicle.)

3. Do you think Jason and Amy should take out a loan or use their savings to buy the car? Explain your thinking.

NOW TRY THIS!

1. Use an Internet search engine to find an online credit calculator. Assume you owe a $1,000 balance on a credit card. Now compare the following credit card deals. Which one has the lowest monthly payment? Which one has the lowest total cost (total cost equals the number of payments times the monthly payment amount)?

- **a.** 20% interest paid back in 24 months
- **b.** 12% interest paid back in 36 months
- **c.** 13.9% interest paid back in 30 months
- **d.** 18% interest paid back in 12 months

2. **Additional Challenge:** Choose a period of one year for each of the four loans, and display the info in a bar graph.

THE REAL COST OF BORROWING $1,000